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ABSTRACT

A discussion is presented of the advantage of placing school district insurance on a single coverage bid basis (coverage by one company rather than several companies). Various procedures for submitting company bids are considered. (FS)

WHY THE SCHOOL DISTRICT SHOULD BID INSURANCE

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Early in the year, I received a telephone call from a local insurance agent requesting information on our bid specifications for fire and extended coverage insurance. In our conversation, I was somewhat pleased by a statement from him, "You know, Ernie, insurance is competitive and we're glad to get a chance to bid on your \$40 million policy." I agreed with him. It had taken our Board of Education some ten years to be in a position to receive bids for our insurance. The ten years involved long discussions with the local insurance agents as to whether we could bid our insurance. In addition, a court action was filed by the insurance agents association to prevent our Board of Education from considering the purchase of fire insurance from mutual

insurance companies. This suit was subsequently decided in our favor and we moved ahead in our insurance bidding program. Permit me also to interject at this time that at least one Board member candidate indicated he would GIVE the insurance back to the local insurance agents association. Fortunately, this individual was not elected. Perhaps, this was due in part to the local newspaper story which pointed out the savings in the new program, the objective evaluation of bids submitted by some five or six companies, and the new services being offered at no additional cost.

Now for the topic at hand "Why Bid Insurance" or the "Pro for Bidding Insurance." It is somewhat interesting for me to be asked to present the topic since Oscar Lanphar and I had a friendly discussion on purchasing of insurance a few months ago at the Southeastern ASBO Meeting. Oddly enough we both were insuring with the same insurance carrier, although we had taken different approaches to purchasing our insurance.

As I previously mentioned, we in the Jefferson County Public Schools have been taking competitive bids on our insurance for approximately ten years. We had bid other types of insurance previous to this time, but fire and extended coverage was not put out for public bids, and we had an insurance agency handle our coverage for 25% of the \$18 million coverage. There were over 200 policies being carried by some local 100 agents with varying terms and expiration dates. We kept a small ledger sheet on each policy and as premiums came due a check was prepared for the local agent. Losses were

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paid pro-rata by all companies and a single loss brought 200 checks. Engineering and inspection services were negligible and little was being done to eliminate rating penalties which were keeping our premium at a high level.

As our Superintendent and Board of Education delved into this problem, it became increasingly obvious that there needed to be some consolidation of the policies and an objective basis for placing insurance. With premium expenditures of some \$35,000.00 per year it was also apparent that many companies would jump at the chance to write our coverage. Loss experience had averaged \$1,600.00 for the previous ten years. Further, it was rather paradoxical for us to go out for bids for services, supplies, equipment, and buildings in excess of \$2,000.00, and on the other hand completely ignore the purchase of a large amount of insurance through competitive bids. Perhaps this was due partly to the feeling, which is prevalent in many small school districts, that insurance regardless of cost, should be purchased from a local agent or agents. This line of reasoning is aptly answered by a statement promulgated almost ten years ago by New York State Education Department in its Insurance Handbook,¹ and I quote: "A board of education has a responsibility to *all* citizens of a school district. Its obligation is to purchase the best at least cost to the taxpayers."

According to the *ASBO Purchasing & Supply Handbook*, Bulletin No. 22, there are five most frequently used type of bids that school districts may use. They are discussed below and along with their applicability to purchase of insurance:

1. Telephone or verbal — These are the least desirable type of bids and should be used only in an emergency situation or for small quantity orders involving relatively little money. In connection with insurance bidding, I would least likely favor this method since it is more subject to errors, misinterpretation and disputes. Further, it has little legal aspect upon which to enforce fulfillment.

2. Letter quotations — At the name implies, quotations would be made in the form of a letter from two or more competitors. Bidding of this type for most insurance would also leave much to be desired.

3. Sealed bids — Are prepared in a manner similar to formal contracts but many of the legal stipulations are omitted. Quantities or services involved are usually small (\$1,000 or less) and certified checks or bonds may not be required. Sealed bids should be used with requirements such as the following:

- a. Complete specifications and stipulations
- b. Securing of at least three bidders
- c. Public opening of bids

With reference to sealed bids, I feel that an intelligent purchase of insurance could be made on this bidding basis by the school business official. The Purchasing Handbook, on the other hand, points out that such bids have weak legal enforcement, and that a formal contract is more binding. Perhaps this factor would become important in the even the insurance carrier did not

¹*School Business Management Handbooks*, The University of the State of New York, 1956, No. 2 Insurance.

perform during the term of the insurance, however, in my dealings with the representatives of the insurance agency, I have found them to be desirous of maintaining the highest standards of business ethics and performance.

4. Formal contracts — Are recommended as the most desirable method for procurement of supplies and materials involving large amounts of money. Procedures incorporated in sealed bids are used and in addition, a formal contract is signed to give legal enforcement. Many school districts require a performance bond.

From the standpoint of insurance bidding, this perhaps would be the most desirable. However, much of the policy will contain the conditions of the insurance. Some guarantee might be needed insofar as performance of services are concerned.

5. Negotiations — Although negotiations are not used too frequently, they are occasionally carried on in order to obtain service contracts in which the full extent of the work is exactly known and specifications cannot be definitely predetermined. Linn states² on the subject of negotiation:

“Generally speaking, competitive bidding is based on terms set up by the purchaser and, occasionally, because of general conditions or unusual circumstances, it may be impossible to obtain responses from vendors. It then becomes necessary to ascertain what is available and on what terms. While the element of competitive bidding is not entirely eliminated, it should be demonstrated that the negotiated arrangements finally accepted are fair and equitable, that no discrimination or partiality is involved, and that no statutory restriction is violated.”

From the above, we can deduce that negotiations are used more on items of experimental nature. It may be that bidding of insurance could be classified as experimental to some school business officials and therefore this route might be followed, however, an early attempt should be made to develop specifications for receiving sealed bids which would preclude criticism or any suspicion of partiality.

Advantages of Bidding

It is my feeling that the bidding of insurance is as important to the school district as the bidding for other supplies, services and equipment. Some of the advantages I believe our school district has enjoyed are:

1. Creation of good relationship with the insurance representatives. Prior to our policy of bidding insurance, we had some 100 agents of stock and mutual companies who carried 200 policies of various amounts. A list was kept of the agents who were approved to write insurance by the Board of Education. Some agents complained because they did not get enough insurance to write or that the agent of record was getting too much insurance. With our bidding procedure, we were able to give all agents and company representatives a chance to compete for the total insurance business.

2. Creation of public confidence in handling of insurance. As I mentioned before, I feel that our public and insurance company representatives

²Henry H. Linn, *School Business Administration*, The Ronald Press Company, 1956, pp. 276-277.

have an opportunity to scrutinize the lows bids, meeting specifications. It also helps to nullify the feeling that insurance business is handled as "plum" to be distributed on something other than an objective basis.

3. Last but not least, I feel that competitive bidding results in savings to the school districts. Our own district has saved thousands of dollars in public funds which can be channelled to more useful purposes.

Savings In Bidding Insurance

I mentioned previously that I felt savings could be made if the school district bids insurance. At the time of our original investigation of insurance program, we were told that the laws did not require us to bid insurance. Further, we were told that all insurance was handled through the State Rating Jurisdiction and that the rates were fixed and were used by all companies. As we delved into the matter we determined that there were authorized insurance carriers who either 1) deviated from the established rate on a special filing, 2) offered an estimated dividend for the term since the same percentage return had been made for 15-20 years, and 3) insurance companies who may choose to set their own ratings based an evaluation of the insured's buildings.

In the Jefferson County Schools, we have successfully bid and purchased three year fire and extended coverage insurance policies in 1958, 1961 and 1964. Our first experience (1958) resulted in savings of \$34,000.00 over the standard State Inspection Bureau through the placing of \$13 million of our select, fire resistive buildings with a large direct writing mutual company, and the balance of \$7 million older, less desirable buildings being insured through a large mutual company who subscribed through the State Inspection Bureau and who estimated a 20% dividend at the end of three years. A check of the dividend percentage record for the previous 25 years indicated a dividend equal to or in excess of 20%. I might add at this time, that we used minimum specifications for this initial bidding venture, and accepted sealed bids from insurance companies interested in securing our business. We also utilized an insurance consultant to advise us in the selection of our insurance carrier and the coverage to be purchased.

At the close of calendar year 1960, our State Insurance Commissioner approved the writing of insurance for schools under the Public and Institutional Property Plan. It was pointed out by the Commissioner that school fire loss experience in Kentucky was well below that of State average and that the P.I.P. Plan would offer 25% reduction in the fire rate and 50% in extended coverage rates. Following this announcement, we immediately began drafting specifications for our fire and extended coverage insurance which would expire, March, 1961. We received approximately five bids and our Board accepted a low bid of a large mutual insurance company who quoted the P.I.P. Plan with an estimated dividend of 20% over the three year term of the policy. This dividend was paid at the expiration of the policy.

In 1964, we again advertised for bids and a complete tabulation of the bids is attached. You will observe that we will save \$36,000.00 over the three year term of the present policy by purchasing our insurance with a large stock company who made a special rate filing.

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In addition to the monetary savings outlined above, we have received such additional benefits as:

1. Plot plans of all school locations
2. Descriptive information on all schools
3. Engineering service on new buildings
4. Analysis of rates on buildings
5. Recommendations for elimination of rating penalties
6. One policy instead of 200

Although I have devoted the bulk of my talk to bidding of fire and extended coverage, I would also like to mention that we also bid our requirements on the following coverages:

1. Steam Boiler Insurance
2. Fleet Insurance
3. Bus Insurance
4. Workmen's Compensation Insurance
5. Fidelity Bond
6. Treasurer's Bond
7. Textbook Custodian's Bond

It is our feeling that premium savings have been made in these areas through competitive bidding.

In summarizing my remarks, I would like to re-emphasize my position that it can be advantageous for the school business official to bid all forms of insurance. Care must be exercised to insure that the companies are large enough to service the policy and to meet the bid requirements. A good guide to preparation of the bid specifications can be found in the October, 1962, issue of *School Business Affairs*. These specifications are recommended by your Committee and I might add that I relied heavily on them for my own preparation.